

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Sparta	County Kent
Audit Date 12/31/05	Opinion Date 4/20/06	Date Accountant Report Submitted to State: 8/2/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Siegfried Crandall P.C.			
Street Address 246 E Kilgore		City Kalamazoo	State MI
Accountant Signature <i>Siegfried Crandall P.C.</i>		ZIP 49002	Date 8/2/06

Village of Sparta
Kent County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended December 31, 2005

CONTENTS

	<i>Page</i>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - viii
INDEPENDENT AUDITORS' REPORT	3 - 4
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements:	
Statement of net assets	5
Statement of activities	6
Fund financial statements:	
Balance sheet - governmental funds	7
Statement of revenues, expenditures, and changes in fund balances - governmental funds	8 - 9
Statement of net assets - proprietary funds	10
Statement of revenues, expenses, and changes in net assets - proprietary funds	11
Statement of cash flows - proprietary funds	12 - 13
Notes to financial statements	14 - 29
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule:	
General Fund	30
Major Street Fund	31
Analysis of funding progress - Employee Retirement System	32
SUPPLEMENTARY INFORMATION	
Combining balance sheet - nonmajor governmental funds	33
Combining statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds	34
OTHER INFORMATION	
Securities and Exchange Commission Rule 15c2-12 Continuing Disclosure	35 - 41

MANAGEMENT'S DISCUSSION AND ANALYSIS

Village of Sparta
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Sparta, Michigan's (the Village) financial performance provides a narrative overview of the Village's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Village's financial statements.

FINANCIAL HIGHLIGHTS

- The Village's total net assets increased by \$2,168,072 (19 percent) as a result of this year's activities. Net assets of the governmental and business-type activities increased by \$2,093,835 and \$74,237, respectively.
- Of the \$13,454,613 total net assets reported, \$2,527,405 (19 percent) is unrestricted, or available to be used at the Council's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$2,748,240, which represents 166 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Village's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village, reporting the Village's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2005 and 2004 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Village's net assets and how they have changed. Net assets (the difference between the Village's assets and liabilities) are one way to measure the Village's financial health or position.

- Over time, increases or decreases in the Village's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Village, you need to consider additional nonfinancial factors, such as changes in the Village's property tax base and the condition of the Village's capital assets.

The government-wide financial statements are divided into three categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as police protection and general government. Property taxes and state shared revenue finance most of these activities.
- *Business-type activities* - The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's sewer and water systems and airport operations are reported here.
- *Component unit* - The Village includes another entity in its report - the Downtown Development Authority. Although legally separate, this "component unit" is important because the Village is financially accountable for it.

Fund financial statements

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Village Council establishes other funds to control and manage money for particular purposes (like street maintenance) or to show that it is properly using certain taxes and other revenues (like state grants collected for the street funds).

The Village has two kinds of funds:

- *Governmental funds*. Most of the Village's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.

Village of Sparta
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund financial statements (Continued)

- *Proprietary funds.* Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - In fact, the Village's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows.
 - The Village uses an internal service fund (the other type of proprietary fund) to report activities that provide services for the Village's other programs and activities. The Village's internal service fund consists of its Equipment Rental Fund.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$13,454,613, an increase of 19 percent compared to the prior year. Of this total, \$5,640,082 is invested in capital assets and \$5,287,126 is restricted for various purposes. Consequently, unrestricted net assets were \$2,527,405, or 19 percent of the total. While the Village reports unrestricted net assets under both governmental and business-type activities, the unrestricted net assets of the business-type activities cannot be used to make up any net asset deficit in governmental activities.

Condensed financial information
 Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current assets	\$ 4,317,992	\$ 3,865,934	\$ 2,081,611	\$ 5,075,865	\$ 6,399,603	\$ 8,941,799
Noncurrent assets	<u>1,882,880</u>	<u>4,536,189</u>	<u>12,579,861</u>	<u>13,041,477</u>	<u>14,462,741</u>	<u>17,577,666</u>
Total assets	<u>6,200,872</u>	<u>8,402,123</u>	<u>14,661,472</u>	<u>18,117,342</u>	<u>20,862,344</u>	<u>26,519,465</u>
Current liabilities	588,409	688,477	404,246	631,829	992,655	1,320,306
Noncurrent liabilities	<u>2,353,357</u>	<u>2,360,705</u>	<u>6,229,791</u>	<u>9,383,841</u>	<u>8,583,148</u>	<u>11,744,546</u>
Total liabilities	<u>2,941,766</u>	<u>3,049,182</u>	<u>6,634,037</u>	<u>10,015,670</u>	<u>9,575,803</u>	<u>13,064,852</u>
Net assets:						
Invested in capital assets, net of related debt	(874,912)	2,736,502	5,960,119	2,903,580	5,085,207	5,640,082
Restricted	770,956	976,253	1,199,334	4,310,873	1,970,290	5,287,126
Unrestricted	<u>3,363,062</u>	<u>1,640,186</u>	<u>867,982</u>	<u>887,219</u>	<u>4,231,044</u>	<u>2,527,405</u>
Total net assets	<u>\$ 3,259,106</u>	<u>\$ 5,352,941</u>	<u>\$ 8,027,435</u>	<u>\$ 8,101,672</u>	<u>\$ 11,286,541</u>	<u>\$ 13,454,613</u>

Village of Sparta
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE (Continued)

Changes in net assets. The Village's total revenues for 2005 were \$5,617,229. Nearly 32 percent of the Village's revenues come from charges for services while property taxes account for 27 percent of the revenues. State shared revenue accounts for only 8 percent of the Village's revenues.

The total cost of all the Village's programs for 2005, covering a wide range of services, totaled \$3,449,157. Nearly 41 percent of the Village's costs relate to the provision of utility services and public safety (police and fire protection) represents 25 percent of total costs.

Condensed financial information Changes in Net Assets						
	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<i>2004</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>
Program revenues:						
Charges for services	\$ 26,614	\$ 38,673	\$ 778,767	\$ 1,755,261	\$ 805,381	\$ 1,793,934
Operating grants and contributions	256,842	246,859	-	-	256,842	246,859
Capital grants and contributions	239,464	907,768	718,515	306,088	957,979	1,213,856
General revenues:						
Property taxes	1,709,110	1,515,792	-	-	1,709,110	1,515,792
State shared revenue	434,870	430,357	-	-	434,870	430,357
Other	129,888	243,926	16,183	57,505	146,071	301,431
Transfers	-	532,691	-	(417,691)	-	115,000
Total revenues	2,796,788	3,916,066	1,513,465	1,701,163	4,310,253	5,617,229
Expenses:						
Legislative	16,599	13,310	-	-	16,599	13,310
General government	488,742	348,625	-	-	488,742	348,625
Public safety	862,724	847,273	-	-	862,724	847,273
Public works	351,353	389,218	-	-	351,353	389,218
Culture and recreation	51,084	58,987	-	-	51,084	58,987
Community and economic development	-	20,726	-	-	-	20,726
Interest	117,859	144,092	-	-	117,859	144,092
Airport	-	-	165,321	258,344	165,321	258,344
Sewer	-	-	631,067	737,878	631,067	737,878
Water	-	-	608,658	630,704	608,658	630,704
Total expenses	1,888,361	1,822,231	1,405,046	1,626,926	3,293,407	3,449,157
Increase in net assets	\$ 908,427	\$ 2,093,835	\$ 108,419	\$ 74,237	\$ 1,016,846	\$ 2,168,072

Village of Sparta
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE (Continued)

Governmental activities

Governmental activities increased the Village's net assets by \$2,093,835. Net assets increased for the following reasons:

- Financial contributions, in the amount of 877,768, were received from third-party partners on the Village's latest series of capital improvement projects.
- The Village issued sewer revenue refunding bonds for the purpose of refunding two prior bond issues including \$480,000 of outstanding 1994 general obligation limited tax bonds. The \$480,000 transfer from the Sewer Fund served to increase net assets of the governmental activities by \$480,000.

The following table shows the costs of the Village's three largest programs, as well as the net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the burden that was placed on the Village's taxpayers by each of these functions.

The total cost of all governmental activities was \$1,822,231.

However, the amount that our taxpayers paid for these activities through general revenues was \$2,722,766. Some of the cost was paid by:

- Those who directly benefited from the programs (\$38,673), or
- Other governments that subsidized certain programs with grants and contributions (\$1,154,627).

The Village paid for the \$628,931 "public benefit" portion with \$1,515,792 in property taxes and with other revenues, such as state shared revenue and interest income.

	<i>Total cost of services</i>	<i>Net cost of services</i>
Public safety	\$ 847,273	\$ 836,402
Public works	389,218	(754,212)
General government	348,625	339,626
Other	237,115	207,115
Totals	\$ 1,822,231	\$ 628,931

Business-type activities

Business-type activities increased the Village's net assets by \$39,954. The key factors which led to this condition were the Village's increase in utility rates to offset increasing costs of operation while holding actual, related expenses at or below projected levels.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Governmental funds

As of December 31, 2005, the Village's governmental funds reported combined ending fund balances of \$3,503,426, a decrease of \$578,928 compared to last year's balances. The General Fund experienced a decrease of \$478,768 primarily due to its \$502,300 contribution to the Major Street Fund to support street construction projects.

The Major Street Fund experienced an increase of \$71,374 in its fund balance during the current year. All of the available resources of this fund are restricted for maintenance and construction of major streets within the Village.

The 1994 General Obligation Bond Fund experienced an increase in fund balance of \$20,271, which allowed it to end the current fiscal year with a fund balance of \$80,786. Because \$480,000 of the 1994 general obligation bonds were refunded with sewer revenue refunding bonds, the fund balance should be sufficient to pay off the remaining balance of the bonds in 2006.

In addition, these other changes in fund balances should be noted:

- Nonmajor special revenue funds decreased by \$58,077, primarily due to \$43,000 in sidewalk improvement costs.
- Nonmajor debt service funds decreased by \$133,728 due to a planned reduction in property tax revenues needed to fund debt service costs.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year, unreserved fund balance was \$2,748,240, which represents 166 percent of the actual total General Fund expenditures for the current fiscal year. The fund balance of the General Fund represents 78 percent of the combined ending fund balances of the governmental funds.

Proprietary funds. The Sewer Fund experienced an operating loss of \$165,072 and its net assets decreased by \$381,125. A \$480,000 transfer to a governmental fund to refund a general obligation bond issue was the primary reason for the decrease in net assets. Net assets were \$4,052,110 at year end while net working capital amounted to \$1,800,680.

The Water Fund experienced an operating loss of \$132,189. However, net assets of the fund increased by \$343,076 because increased debt service charges and connection fees more than covered the fund's debt service costs. Net assets were \$2,993,936 at year end while net working capital amounted to \$2,568,051.

The Airport Fund generated operating income of \$44,141 and increased its net assets by \$112,286. A transfer from the General Fund, in the amount of \$62,309, accounted for a large part of the increase. Net assets were \$1,055,626 at year end.

Village of Sparta
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

General fund budgetary highlights

Resources available for appropriation were \$220,770 more than the amount budgeted, primarily because conservative revenue estimates were substantially lower than actual revenues for the 2005 fiscal year. In total, actual expenditures were \$62,035 less than the amount budgeted.

The actual expenditures of two functional categories exceeded the amounts appropriated. These budgetary violations can be explained as follows:

- Public safety expenditures exceeded appropriations by \$35,311 because of personnel-related expenses incurred in the investigation of a major crime and a buy-out of employee sick time due to a positional change within the department.
- Capital outlay expenditures exceeded appropriations by \$54,773 due to unforeseen issues related to the Rogers Park Capital Improvement Project.

Capital assets and debt administration

Capital assets

The Village's investment in capital assets for its governmental and business-type activities as of December 31, 2005, amounts to \$17,061,808 (net of accumulated depreciation). This investment includes a broad range of assets including land, streets, sewer and water facilities, buildings, and equipment. The net increase in the Village's net investment in capital assets for the current fiscal year was \$2,688,166 or 19 percent.

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Infrastructure	\$ 3,418,785	\$ 11,493,924	\$ 14,912,709
Land and improvements	-	656,863	656,863
Buildings and improvements	524,033	530,009	1,054,042
Vehicles and equipment	374,386	63,808	438,194
Totals	<u>\$ 4,317,204</u>	<u>\$ 12,744,604</u>	<u>\$ 17,061,808</u>

Major capital asset events during the current fiscal year included the following:

- Infrastructure improvements that were financed through the issuance of capital improvement bonds. Street costs capitalized amounted to \$2,084,523 and sewer and water line extension costs totaled \$608,844.
- The purchase of a dump truck for the DPW Department, with a total cost of \$101,488, was financed with local bank borrowing through an installment purchase agreement.

More detailed information about the Village's capital assets is presented in Note 5 of the basic financial statements.

Village of Sparta
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt administration

At the end of the fiscal year, the Village had bonds and notes outstanding in the amount of \$12,461,676, which represents an increase of \$3,173,274 or 34 percent. All debt is backed by the full faith and credit of the Village.

During the year ended December 31, 2005, the Village increased its debt through the issuance of sewer and water revenue bonds, in the amount of \$4,890,000, to finance infrastructure improvement projects and refund two prior debt issues. The Village also entered into an installment purchase agreement, in the amount of \$101,488, to finance the purchase of a vehicle.

Other noncurrent obligations totaling \$41,200 represent accrued compensated absences.

More detailed information about the Village's noncurrent obligations is presented in Note 8 of the basic financial statements.

Economic condition and outlook

The overall economic condition of the Village remains strong and healthy. The Village continues to utilize its finances sensibly and maintains healthy fund reserves. Through public-private cooperatives, the Village has made significant investments in capital improvement projects which will benefit the community as a whole as it continues to grow and develop.

Contacting the Village's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Sharon J. DeLange, Finance Director
Bryan Chodkowski, Manager
Village of Sparta
156 E. Division
Sparta, MI 49345-1389

Phone: (616) 887-8251
E-mail: manager@spartami.org

INDEPENDENT AUDITORS' REPORT

Village Council
Village of Sparta, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the Village of Sparta, Michigan, as of December 31, 2005, and for the year then ended, which collectively comprise the Village of Sparta, Michigan's financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Sparta, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the Village of Sparta, Michigan, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison schedules, and the schedule of funding progress of the employee retirement system, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Sparta, Michigan's basic financial statements. The accompanying supplementary information, as listed in the contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information designated as "Securities and Exchange Commission Rule 15c2-12 Continuing Disclosure" in the contents is also presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Village of Sparta, Michigan. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

Sigfried Crandall P.C.

April 20, 2006

BASIC FINANCIAL STATEMENTS

Village of Sparta
STATEMENT OF NET ASSETS
December 31, 2005

	Primary government			Component unit
	Governmental activities	Business-type activities	Totals	Downtown Development Authority
ASSETS				
Current assets:				
Cash	\$ 2,863,423	\$ 509,819	\$ 3,373,242	\$ 278,909
Cash - restricted	-	4,310,873	4,310,873	-
Receivables, net	1,012,711	229,111	1,241,822	48,033
Inventory	-	15,862	15,862	-
Internal balances	(10,200)	10,200	-	-
Total current assets	<u>3,865,934</u>	<u>5,075,865</u>	<u>8,941,799</u>	<u>326,942</u>
Noncurrent assets:				
Receivables, net	200,356	99,322	299,678	-
Capital assets, net	4,317,204	12,744,604	17,061,808	-
Deferred charges, net	18,629	197,551	216,180	-
Total noncurrent assets	<u>4,536,189</u>	<u>13,041,477</u>	<u>17,577,666</u>	<u>-</u>
Total assets	<u>8,402,123</u>	<u>18,117,342</u>	<u>26,519,465</u>	<u>326,942</u>
LIABILITIES				
Current liabilities:				
Payables	208,968	174,646	383,614	-
Escrow deposits	16,083	-	16,083	-
Bonds and notes payable	463,426	457,183	920,609	-
Total current liabilities	<u>688,477</u>	<u>631,829</u>	<u>1,320,306</u>	<u>-</u>
Noncurrent liabilities:				
Compensated absences	41,200	-	41,200	-
Bonds and notes payable	2,319,505	9,383,841	11,703,346	-
Total noncurrent liabilities	<u>2,360,705</u>	<u>9,383,841</u>	<u>11,744,546</u>	<u>-</u>
Total liabilities	<u>3,049,182</u>	<u>10,015,670</u>	<u>13,064,852</u>	<u>-</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,736,502	2,903,580	5,640,082	-
Restricted for:				
Public works	729,491	-	729,491	-
Culture and recreation	25,000	-	25,000	-
Capital projects	-	4,310,873	4,310,873	-
Debt service	221,762	-	221,762	-
Unrestricted	1,640,186	887,219	2,527,405	326,942
Total net assets	<u>\$ 5,352,941</u>	<u>\$ 8,101,672</u>	<u>\$ 13,454,613</u>	<u>\$ 326,942</u>

See notes to the financial statements

Village of Sparta
STATEMENT OF ACTIVITIES
Year ended December 31, 2005

Functions/Programs	Expenses	Program revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Governmental activities:				
Legislative	\$ 13,310	\$ -	\$ -	\$ -
General government	348,625	8,999	-	-
Public safety	847,273	10,871	-	-
Public works	389,218	18,803	246,859	877,768
Culture and recreation	58,987	-	-	30,000
Community and economic development	20,726	-	-	-
Interest on long-term debt	144,092	-	-	-
Total governmental activities	1,822,231	38,673	246,859	907,768
Business-type activities:				
Airport	258,344	294,341	-	11,710
Sewer	737,878	665,730	-	137,894
Water	630,704	795,190	-	156,484
Total business-type activities	1,626,926	1,755,261	-	306,088
Total primary government	\$ 3,449,157	\$ 1,793,934	\$ 246,859	\$ 1,213,856
Component unit:				
Downtown Development Authority	\$ 72,141	\$ -	\$ -	\$ -
General revenues				
Property taxes				
State shared revenue				
Interest income				
Franchise fees				
Gain on sale of capital assets				
Other				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

Net (expenses) revenues and changes in net assets

<i>Primary government</i>			<i>Component unit</i>
<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>	<i>Downtown Development Authority</i>
\$ (13,310)		\$ (13,310)	
(339,626)		(339,626)	
(836,402)		(836,402)	
754,212		754,212	
(28,987)		(28,987)	
(20,726)		(20,726)	
(144,092)		(144,092)	
(628,931)		(628,931)	
	\$ 47,707	47,707	
	65,746	65,746	
	320,970	320,970	
	434,423	434,423	
(628,931)	434,423	(194,508)	
			\$ (72,141)
1,515,792	-	1,515,792	193,273
430,357	-	430,357	-
106,646	57,505	164,151	6,803
30,824	-	30,824	-
43,220	-	43,220	-
63,236	-	63,236	300
532,691	(417,691)	115,000	(115,000)
2,722,766	(360,186)	2,362,580	85,376
2,093,835	74,237	2,168,072	13,235
3,259,106	8,027,435	11,286,541	313,707
\$ 5,352,941	\$ 8,101,672	\$ 13,454,613	\$ 326,942

See notes to the financial statements

Village of Sparta
BALANCE SHEET - governmental funds
December 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>1994 General obligation bonds</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ 1,922,757	\$ 342,168	\$ 80,786	\$ 424,148	\$ 2,769,859
Receivables, net	361,902	840,766	-	10,399	1,213,067
Due from other funds	640,000	-	-	-	640,000
Total assets	<u>\$ 2,924,659</u>	<u>\$ 1,182,934</u>	<u>\$ 80,786</u>	<u>\$ 434,547</u>	<u>\$ 4,622,926</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables	\$ 97,917	\$ 79,146	\$ -	\$ 6,757	\$ 183,820
Due to other funds	10,200	640,000	-	-	650,200
Escrow deposits	16,083	-	-	-	16,083
Deferred revenue	52,219	217,178	-	-	269,397
Total liabilities	<u>176,419</u>	<u>936,324</u>	<u>-</u>	<u>6,757</u>	<u>1,119,500</u>
Fund balances:					
Unreserved	2,748,240	246,610	80,786	-	3,075,636
Unreserved, reported in nonmajor:					
Special revenue funds	-	-	-	286,814	286,814
Debt service funds	-	-	-	140,976	140,976
Total fund balances	<u>2,748,240</u>	<u>246,610</u>	<u>80,786</u>	<u>427,790</u>	<u>3,503,426</u>
Total liabilities and fund balances	<u>\$ 2,924,659</u>	<u>\$ 1,182,934</u>	<u>\$ 80,786</u>	<u>\$ 434,547</u>	<u>\$ 4,622,926</u>
Total fund balances - all governmental funds					\$ 3,503,426
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					4,028,200
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.					288,026
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.					(2,686,518)
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets					<u>219,807</u>
Net assets of <i>governmental activities</i> (page 5)					<u>\$ 5,352,941</u>

See notes to the financial statements

Village of Sparta

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN

FUND BALANCES - governmental funds

Year ended December 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>1994 General obligation bonds</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES					
Property taxes	\$ 1,037,444	\$ -	\$ 76,297	\$ 402,832	\$ 1,516,573
Licenses and permits	34,496	-	-	-	34,496
State grants	441,982	167,682	-	67,552	677,216
Contributions from local unit	-	660,590	-	-	660,590
Charges for services	8,999	-	-	-	8,999
Fines and forfeitures	7,199	-	-	-	7,199
Interest and rentals	75,231	12,439	2,070	14,639	104,379
Other	93,994	5,937	6,715	23,613	130,259
Total revenues	<u>1,699,345</u>	<u>846,648</u>	<u>85,082</u>	<u>508,636</u>	<u>3,139,711</u>
EXPENDITURES					
Legislative	13,310	-	-	-	13,310
General government	342,283	-	-	-	342,283
Public safety	826,443	-	-	-	826,443
Public works	-	2,187,267	-	254,131	2,441,398
Culture and recreation	58,724	-	-	-	58,724
Community and economic development	20,726	-	-	-	20,726
Capital outlay	369,292	-	-	-	369,292
Debt service:					
Principal	23,055	59,000	515,000	331,800	928,855
Interest	4,671	47,307	32,153	61,168	145,299
Total expenditures	<u>1,658,504</u>	<u>2,293,574</u>	<u>547,153</u>	<u>647,099</u>	<u>5,146,330</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>40,841</u>	<u>(1,446,926)</u>	<u>(462,071)</u>	<u>(138,463)</u>	<u>(2,006,619)</u>
OTHER FINANCING SOURCES (USES)					
Reallocation of prior year bond proceeds	-	895,000	-	-	895,000
Transfers in - primary government	-	593,300	482,342	40,000	1,115,642
Transfers in - component unit	45,000	70,000	-	-	115,000
Transfers out - primary government	(564,609)	(40,000)	-	(93,342)	(697,951)
Total other financing sources (uses)	<u>(519,609)</u>	<u>1,518,300</u>	<u>482,342</u>	<u>(53,342)</u>	<u>1,427,691</u>
NET CHANGE IN FUND BALANCES	<u>(478,768)</u>	<u>71,374</u>	<u>20,271</u>	<u>(191,805)</u>	<u>(578,928)</u>
FUND BALANCES - BEGINNING	<u>3,227,008</u>	<u>175,236</u>	<u>60,515</u>	<u>619,595</u>	<u>4,082,354</u>
FUND BALANCES - ENDING	<u>\$ 2,748,240</u>	<u>\$ 246,610</u>	<u>\$ 80,786</u>	<u>\$ 427,790</u>	<u>\$ 3,503,426</u>

See notes to the financial statements

Village of Sparta

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds (Continued)**

Year ended December 31, 2005

Net change in fund balances - total governmental funds	\$ (578,928)
--	--------------

Amounts reported for *governmental activities* in the statement of activities (page 6)
are different because:

Capital assets:

Assets acquired	2,495,919
Provision for depreciation	(92,411)

Long-term debt:

Reallocation of prior year bond proceeds that increased capital debt	(895,000)
Principal repayments	928,855

Changes in other assets/liabilities:

Net decrease in bond issuance costs	(980)
Net decrease in deferred revenue	241,397
Net decrease in accrued interest	4,700
Net decrease in compensated absences	5,188

The net expense of the internal service fund is reported with governmental activities.	<u>(14,905)</u>
--	-----------------

Change in net assets of <i>governmental activities</i>	<u>\$ 2,093,835</u>
--	---------------------

Village of Sparta
STATEMENT OF NET ASSETS - proprietary funds
December 31, 2005

	Business-type activities				Governmental activities
	Enterprise funds				Internal service
	Sewer	Water	Airport	Totals	
ASSETS					
Current assets:					
Cash	\$ 46,905	\$ 378,192	\$ 84,722	\$ 509,819	\$ 93,564
Cash - restricted	1,802,364	2,508,509	-	4,310,873	-
Receivables, net	113,477	92,750	22,884	229,111	-
Inventory	-	-	15,862	15,862	-
Due from other funds	-	10,200	-	10,200	-
Total current assets	<u>1,962,746</u>	<u>2,989,651</u>	<u>123,468</u>	<u>5,075,865</u>	<u>93,564</u>
Noncurrent assets:					
Receivables, net	8,562	90,760	-	99,322	-
Capital assets, net	4,969,877	6,635,844	1,138,883	12,744,604	289,004
Deferred charges, net	125,161	72,390	-	197,551	-
Total noncurrent assets	<u>5,103,600</u>	<u>6,798,994</u>	<u>1,138,883</u>	<u>13,041,477</u>	<u>289,004</u>
Total assets	<u>7,066,346</u>	<u>9,788,645</u>	<u>1,262,351</u>	<u>18,117,342</u>	<u>382,568</u>
LIABILITIES					
Current liabilities:					
Payables	43,066	119,600	11,980	174,646	8,748
Due to other funds	-	-	-	-	-
Bonds and notes payable	119,000	302,000	36,183	457,183	30,021
Total current liabilities	<u>162,066</u>	<u>421,600</u>	<u>48,163</u>	<u>631,829</u>	<u>38,769</u>
Noncurrent liabilities:					
Bonds and notes payable	2,852,170	6,373,109	158,562	9,383,841	123,992
Total liabilities	<u>3,014,236</u>	<u>6,794,709</u>	<u>206,725</u>	<u>10,015,670</u>	<u>162,761</u>
NET ASSETS					
Invested in capital assets, net of related debt	1,998,707	(39,265)	944,138	2,903,580	134,991
Restricted for capital projects	1,802,364	2,508,509	-	4,310,873	-
Unrestricted	251,039	524,692	111,488	887,219	84,816
Total net assets	<u>\$ 4,052,110</u>	<u>\$ 2,993,936</u>	<u>\$ 1,055,626</u>	<u>\$ 8,101,672</u>	<u>\$ 219,807</u>

See notes to the financial statements

Village of Sparta

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - *proprietary funds***

Year ended December 31, 2005

	Business-type activities				Governmental activities
	Enterprise funds				Internal service
	Sewer	Water	Airport	Totals	
OPERATING REVENUES					
Charges for services:					
Utility commodity charges	\$ 416,446	\$ 359,244	\$ -	\$ 775,690	\$ -
Rentals	-	-	112,588	112,588	144,223
Fuel sales	-	-	173,879	173,879	-
Other	77,230	16,104	7,874	101,208	223
Total operating revenues	493,676	375,348	294,341	1,163,365	144,446
OPERATING EXPENSES					
Personnel costs	272,855	214,176	22,596	509,627	26,972
Gas and oil	2,729	1,911	145,922	150,562	9,868
Supplies	28,572	75,912	719	105,203	11,993
Contracted services	66,794	9,913	22,883	99,590	-
Insurance	12,492	2,949	7,780	23,221	12,503
Utilities	50,493	32,534	5,189	88,216	14,067
Repairs and maintenance	57,352	16,953	6,630	80,935	25,078
Internal charges - equipment rentals	7,328	10,915	1,455	19,698	-
Depreciation	137,113	133,777	33,232	304,122	56,758
Miscellaneous	23,020	8,497	3,794	35,311	1,866
Total operating expenses	658,748	507,537	250,200	1,416,485	159,105
Operating income (loss)	(165,072)	(132,189)	44,141	(253,120)	(14,659)
NONOPERATING REVENUES (EXPENSES)					
State grant	-	-	11,710	11,710	-
Debt service charges	172,054	419,842	-	591,896	-
Connection fees	137,894	156,484	-	294,378	-
Interest revenue	33,129	22,106	2,270	57,505	2,267
Interest expense	(79,130)	(123,167)	(8,144)	(210,441)	(2,513)
Total nonoperating revenues (expenses)	263,947	475,265	5,836	745,048	(246)
INCOME (LOSS) BEFORE TRANSFERS	98,875	343,076	49,977	491,928	(14,905)
TRANSFERS:					
Transfer from General Fund	-	-	62,309	62,309	-
Transfer to Debt Service Fund	(480,000)	-	-	(480,000)	-
Net transfers	(480,000)	-	62,309	(417,691)	-
CHANGE IN NET ASSETS	(381,125)	343,076	112,286	74,237	(14,905)
NET ASSETS - BEGINNING	4,433,235	2,650,860	943,340	8,027,435	234,712
NET ASSETS - ENDING	\$ 4,052,110	\$ 2,993,936	\$ 1,055,626	\$ 8,101,672	\$ 219,807

See notes to the financial statements

Village of Sparta
STATEMENT OF CASH FLOWS - proprietary funds
Year ended December 31, 2005

	Business-type activities				Governmental activities
	Enterprise funds				Internal service
	Sewer	Water	Airport	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 475,475	\$ 364,131	\$ 274,978	\$ 1,114,584	\$ -
Receipts from interfund services	-	-	-	-	144,446
Payments to vendors and suppliers	(377,704)	(239,526)	(200,917)	(818,147)	(86,080)
Payments to employees	(156,588)	(117,007)	(18,478)	(292,073)	(15,019)
Internal activity - payments to other funds	(7,328)	(10,915)	(1,455)	(19,698)	-
Net cash provided by (used in) operating activities	(66,145)	(3,317)	54,128	(15,334)	43,347
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Repayment of interfund payable	-	(180,000)	-	(180,000)	-
Transfers out	(1,095,000)	(280,000)	-	(1,375,000)	-
Net cash used in noncapital financing activities	(1,095,000)	(460,000)	-	(1,555,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital debt	2,434,010	2,508,509	-	4,942,519	101,488
Debt service charges	172,054	419,842	-	591,896	-
Connection fees	105,137	44,904	-	150,041	-
Acquisition of capital assets	(175,694)	(252,307)	(41,456)	(469,457)	(107,183)
Principal payments on capital debt	(624,000)	(207,000)	(35,474)	(866,474)	(22,885)
Interest payments on capital debt	(74,816)	(110,451)	(8,144)	(193,411)	(2,513)
Net cash provided by (used in) capital and related financing activities	1,836,691	2,403,497	(85,074)	4,155,114	(31,093)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	33,129	22,106	2,270	57,505	2,267
NET INCREASE (DECREASE) IN CASH	708,675	1,962,286	(28,676)	2,642,285	14,521
CASH - BEGINNING (including \$630,202 and \$569,132, for the sewer and water funds, respectively, reported in restricted accounts)	1,140,594	924,415	113,398	2,178,407	79,043
CASH - ENDING (including \$1,802,364 and \$2,508,509, for the sewer and water funds, respectively, reported in restricted accounts)	\$ 1,849,269	\$ 2,886,701	\$ 84,722	\$ 4,820,692	\$ 93,564

See notes to the financial statements

Village of Sparta
STATEMENT OF CASH FLOWS - proprietary funds (Continued)
Year ended December 31, 2005

	Business-type activities				Governmental activities
	Enterprise funds				Internal service
	Sewer	Water	Airport	Totals	
Noncash capital and related financing activities:					
Acquisition of capital assets	\$ (175,694)	\$ (309,527)	\$ (53,166)	\$ (538,387)	\$ (107,183)
Less:					
Increase in payables	-	57,220	-	57,220	-
State grant	-	-	11,710	11,710	-
Net cash used	<u>\$ (175,694)</u>	<u>\$ (252,307)</u>	<u>\$ (41,456)</u>	<u>\$ (469,457)</u>	<u>\$ (107,183)</u>
Reallocation of prior year bond proceeds that reduced capital debt	<u>\$ 615,000</u>	<u>\$ 280,000</u>	<u>\$ -</u>	<u>\$ 895,000</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (165,072)	\$ (132,189)	\$ 44,141	\$ (253,120)	\$ (14,659)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	137,113	133,777	33,232	304,122	56,758
Increase in:					
Receivables, net	(18,201)	(11,217)	(19,363)	(48,781)	-
Inventory	-	-	(15,862)	(15,862)	-
Increase (decrease) in:					
Payables	(19,985)	6,312	11,980	(1,693)	1,248
Net cash provided by (used in) operating activities	<u>\$ (66,145)</u>	<u>\$ (3,317)</u>	<u>\$ 54,128</u>	<u>\$ (15,334)</u>	<u>\$ 43,347</u>

See notes to the financial statements

Village of Sparta
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Sparta, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present the Village and its component unit, an entity for which the Village is considered to be financially accountable. The discretely-presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village.

Discretely-presented component unit:

Downtown Development Authority:

The Authority's governing body is appointed by the Village Council and its budget must be approved by the Village Council. Separate financial statements for the component unit have not been issued, as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of major streets within the Village.

The 1994 General Obligation Bond Fund accounts for the accumulation of resources necessary to retire 1994 general obligation bonds.

The Village reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Village's sewage collection systems and treatment plant.

The Water Fund accounts for the activities of the Village's water distribution system.

The Airport Fund accounts for the activities of the Village's airport.

Additionally, the Village reports the following fund type:

The Motor Vehicle Pool Fund, an internal service fund, accounts for vehicle and equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible.

iii) Deferred charges - Certain payments in connection with obtaining long-term financing have been deferred and are being amortized over the life of the related debt using the interest method.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems, roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$2,500 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Village has elected to account for its infrastructure assets prospectively, beginning January 1, 2004.

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iv) Capital assets (continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Equipment	5 - 20 years
Vehicles	5 - 10 years
Infrastructure	20 - 50 years

v) *Compensated absences* - It is the Village's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for unpaid accumulated sick leave has been recorded for the portion due to employees upon separation from service with the Village. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Sick leave is accrued as the benefits are earned by the employees, as the leave is attributable to past service and it is probable that the Village will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination of employment. Sick leave is accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination benefits, as well as other employees who are expected to receive such payments in the future. Such accumulations are reduced to the maximum amount allowed as a termination payment, based on certain limitations.

Vacation leave is earned in varying amounts depending upon years of service. Village employees are required to take their vacation leave during the twelve months following their anniversary date each year. All vacation leave not used during that period shall be forfeited. Vacation leave is not accrued as it is not a vested benefit.

vi) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) Property tax revenue recognition:

Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before September 14, after which time the bill becomes delinquent and the Village may assess penalties and interest. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Village levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

viii) Special assessment revenue recognition:

Special assessment revenue is recorded as deferred when initially assessed in the governmental funds. To the extent special assessments are realized, that is, collected, revenue is recognized. Special assessments are recognized as revenue when they become measurable and available. Any portion of special assessments that does not meet both criteria is reported as deferred revenue. Interest income on special assessments receivable is not accrued until its due date.

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations:

The following schedule sets forth significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public safety	\$ 791,132	\$ 826,443	\$ 35,311
	Capital outlay	314,519	369,292	54,773

NOTE 3 - CASH:

Cash, as presented in the accompanying financial statements, consisted of the following:

	<u>Governmental activities</u>	<u>Business- type activities</u>	<u>Total primary government</u>	<u>Component unit</u>	<u>Totals</u>
Deposits	\$ 2,863,248	\$ 4,820,692	\$ 7,683,940	\$ 278,909	\$ 7,962,849
Cash on hand	175	-	175	-	175
Total cash	<u>\$ 2,863,423</u>	<u>\$ 4,820,692</u>	<u>\$ 7,684,115</u>	<u>\$ 278,909</u>	<u>\$ 7,963,024</u>

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. At December 31, 2005, \$7,596,917 of the Village's bank balances of \$7,996,917 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

The Village maintains individual and pooled cash accounts for all of its funds and its component unit. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component unit. The insured portion of the bank balance has been allocated entirely to the primary government.

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At December 31, 2005, the Village's receivables were as follows:

	<u>Property taxes</u>	<u>Accounts</u>	<u>Assessments</u>	<u>Intergovern- mental</u>	<u>Totals</u>
Governmental activities:					
General Fund	\$ 164,581	\$ 40,709	\$ -	\$ 156,612	\$ 361,902
Major Street Fund	-	-	217,178	623,588	840,766
Nonmajor governmental funds	-	-	-	10,399	10,399
Total governmental activities	<u>\$ 164,581</u>	<u>\$ 40,709</u>	<u>\$ 217,178</u>	<u>\$ 790,599</u>	<u>\$ 1,213,067</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,356</u>	<u>\$ -</u>	<u>\$ 200,356</u>
Business-type activities:					
Sewer Fund	\$ -	\$ 96,628	\$ 9,281	\$ 16,130	\$ 122,039
Water Fund	-	85,130	98,380	-	183,510
Airport Fund	-	22,884	-	-	22,884
Total business-type activities	<u>\$ -</u>	<u>\$ 204,642</u>	<u>\$ 107,661</u>	<u>\$ 16,130</u>	<u>\$ 328,433</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,322</u>	<u>\$ -</u>	<u>\$ 99,322</u>

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2005, was as follows:

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 535,278	\$ 64,400	\$ -	\$ 599,678
Furniture, fixtures, and equipment	200,279	42,787	-	243,066
Vehicles	421,451	101,488	-	522,939
Streets	<u>1,098,714</u>	<u>2,394,427</u>	<u>-</u>	<u>3,493,141</u>
Subtotal	<u>2,255,722</u>	<u>2,603,102</u>	<u>-</u>	<u>4,858,824</u>
Less accumulated depreciation for:				
Buildings	63,437	12,208	-	75,645
Furniture, fixtures, and equipment	94,340	17,684	-	112,024
Vehicles	229,768	49,827	-	279,595
Streets	<u>4,906</u>	<u>69,450</u>	<u>-</u>	<u>74,356</u>
Subtotal	<u>392,451</u>	<u>149,169</u>	<u>-</u>	<u>541,620</u>
Governmental activities capital assets, net	<u>\$ 1,863,271</u>	<u>\$ 2,453,933</u>	<u>\$ -</u>	<u>\$ 4,317,204</u>

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 275,886	\$ 49,100	\$ -	\$ 324,986
Capital assets being depreciated:				
Sewer system	6,843,662	175,694	-	7,019,356
Water system	7,734,452	287,029	-	8,021,481
Land improvements	383,473	-	-	383,473
Buildings	637,571	-	-	637,571
Vehicles and equipment	251,613	26,565	-	278,178
Subtotal	15,850,771	489,288	-	16,340,059
Less accumulated depreciation for:				
Sewer system	1,946,949	129,563	-	2,076,512
Water system	1,336,859	133,542	-	1,470,401
Land improvements	35,798	15,798	-	51,596
Buildings	91,543	16,019	-	107,562
Vehicles and equipment	205,170	9,200	-	214,370
Subtotal	3,616,319	304,122	-	3,920,441
Total capital assets being depreciated, net	12,234,452	185,166	-	12,419,618
Business-type activities capital assets, net	\$ 12,510,338	\$ 234,266	\$ -	\$ 12,744,604

Depreciation expense was charged to governmental activities as follows:

General government	\$ 6,082
Public safety	14,485
Public works	68,338
Culture and recreation	3,506
Depreciation on capital assets held by internal service fund	56,758
Total governmental activities	\$ 149,169

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At December 31, 2005, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
Water	\$ 10,200	General	\$ 10,200
General	<u>640,000</u>	Major Street	<u>640,000</u>
	<u>\$ 650,200</u>		<u>\$ 650,200</u>

The amount owed to the Water Fund represents an overpayment received by the General Fund and the amount due to the General Fund represents temporary borrowing to finance street construction projects.

A summary of interfund transfers for the year ended December 31, 2005, is as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Local Street	<u>\$ 40,000</u>	Major Street	<u>\$ 40,000</u>
1994 General Obligation Bond	<u>2,342</u>	Nonmajor governmental fund	<u>2,342</u>
		General Fund	502,300
		Nonmajor governmental funds	<u>91,000</u>
Major Street	<u>593,300</u>		<u>593,300</u>
Airport	<u>62,309</u>	General	<u>62,309</u>
1994 General Obligation Bond	<u>480,000</u>	Sewer	<u>480,000</u>
General	45,000		
Major Street	<u>70,000</u>		
	<u>115,000</u>	Downtown Development Authority	<u>115,000</u>
Totals	<u>\$ 1,292,951</u>	Totals	<u>\$ 1,292,951</u>

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued):

The transfer to the Local Street Fund represents support for additional street maintenance and repairs.

The transfers to the Major Street Fund represent support for street construction projects.

The General Fund's transfer to the Equipment Fund represents the forgiveness of an interfund loan.

The Sewer Fund made a transfer to a nonmajor debt service fund, which represents the refunding of general obligation bonds with sewer revenue bonds.

The transfers from the Downtown Development Authority represent contributions for its share of the Rogers Park improvements and street improvements.

NOTE 7 - PAYABLES:

At December 31, 2005, the Village's payables were as follows:

	<u>Accounts</u>	<u>Payroll</u>	<u>Interest</u>	<u>Totals</u>
Governmental activities:				
General Fund	\$ 80,475	\$ 17,442	\$ -	\$ 97,917
Major Street Fund	79,146	-	-	79,146
Nonmajor governmental funds	<u>6,757</u>	<u>-</u>	<u>-</u>	<u>6,757</u>
Total governmental activities	<u>\$ 166,378</u>	<u>\$ 17,442</u>	<u>\$ -</u>	<u>\$ 183,820</u>
Business-type activities:				
Sewer Fund	\$ 15,166	\$ 3,800	\$ 24,100	\$ 43,066
Water Fund	72,400	5,000	42,200	119,600
Airport Fund	<u>11,980</u>	<u>-</u>	<u>-</u>	<u>11,980</u>
Total business-type activities	<u>\$ 99,546</u>	<u>\$ 8,800</u>	<u>\$ 66,300</u>	<u>\$ 174,646</u>

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - NONCURRENT LIABILITIES:

At December 31, 2005, long-term obligations consist of the following individual issues:

Governmental activities:

Bonds and notes:

\$800,000 1994 Sewer system general obligation bonds - payable in annual installments ranging from \$35,000 to \$90,000, plus interest ranging from 5.25% to 5.75%; final payment due May 2014	\$ 40,000
\$41,000 1997 Installment purchase note - payable in monthly installments of \$480, including interest at 7.20%; final payment due May 2007	7,306
\$170,000 1998 Installment purchase note - payable in annual installments of \$21,962, including interest at 4.95%; final payment due October 2008	60,612
\$2,480,000 2001 General obligation refunding bonds - payable in annual installments ranging from \$190,000 to \$315,000, plus interest ranging from 3.45% to 4.35%; final payment due November 2010	1,160,000
\$4,420,000 2004 Capital improvements bonds - payable in annual installments ranging from \$59,000 to \$76,700, plus interest ranging from 2.00% to 4.35%; final payment due November 2024	1,361,000
\$87,538 2004 Installment purchase note - payable in monthly installments of \$1,938, including interest at 4.94%; final payment due May 2008	54,133
\$101,288 2005 Installment purchase note - payable in monthly installments of \$1,073, including interest at 4.94%; final payment due November 2015	<u>99,880</u>
Total bonds and notes	2,782,931
Accrued compensated absences	<u>41,200</u>
Total governmental activities	<u>\$ 2,824,131</u>

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - NONCURRENT LIABILITIES (Continued):

Business-type activities:

Bonds and notes:

\$900,000 1994 Sewer system revenue bonds - payable in annual installments ranging from \$35,000 to \$85,000, plus interest ranging from 5.20% to 6.00%; final payment due May 2004	\$ 40,000
\$71,358 1996 Airport installment purchase note - payable in monthly installments of \$766, including interest at 5.25%; final payment due November 2006	8,255
\$100,000 1999 Airport installment purchase note - payable in annual installments of \$12,638, including interest at 5.25%; final payment due November 2009	45,188
\$4,330,000 2000 Water revenue bonds - payable in annual installments ranging from \$180,000 to \$270,000, plus interest at 2.50%; final payment due April 2021	3,620,000
\$85,000 2002 Airport installment purchase note - payable in monthly installments of \$834, including interest at 3.34%; final payment due December 2012	61,745
\$100,000 2003 Airport installment purchase note - payable in monthly installments of \$981, including interest at 3.34%; final payment due September 2013	79,557
\$975,000 2004 Capital improvement bonds - payable in annual installments ranging from \$41,000 to \$53,300, plus interest ranging from 2.00% to 4.35%; final payment due November 2024	934,000
\$2,405,000 2005 Sewer revenue and revenue refunding bonds - payable in annual installments ranging from \$60,000 to \$225,000, plus interest ranging from 3.25% to 5.50%; final payment due November 2025	2,405,000
\$2,485,000 2005 Water revenue bonds - payable in annual installments ranging from \$85,000 to \$185,000, plus interest ranging from 3.25% to 5.50%; final payment due November 2025	<u>2,485,000</u>
Subtotal	9,678,745
Net unamortized premiums	<u>162,279</u>
Total business-type activities	<u>\$ 9,841,024</u>

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - NONCURRENT LIABILITIES (Continued):

Long-term obligation activity for the year ended December 31, 2005, is as follows:

	<i>Beginning balance</i>	<i>Reallocation</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
Primary government:						
Governmental activities:						
1991 special assessment bonds	\$ 6,800	\$ -	\$ -	\$ 6,800	\$ -	\$ -
1994 special assessment bonds	555,000	-	-	515,000	40,000	40,000
1997 installment purchase note	12,345	-	-	5,039	7,306	5,414
1998 installment purchase note	78,628	-	-	18,016	60,612	18,991
2001 general obligation bonds	1,485,000	-	-	325,000	1,160,000	310,000
2004 installment purchase note	75,410	-	-	21,277	54,133	21,927
2004 capital improvement bonds	525,000	895,000	-	59,000	1,361,000	59,000
2005 installment purchase note	-	-	101,488	1,608	99,880	8,094
Total bonds and notes	2,738,183	895,000	101,488	951,740	2,782,931	463,426
Compensated absences	46,388	-	-	5,188	41,200	-
Total governmental activities	\$ 2,784,571	\$ 895,000	\$ 101,488	\$ 956,928	\$ 2,824,131	\$ 463,426
Business-type activities:						
1994 sewer revenue bonds	\$ 645,000	\$ -	\$ -	\$ 605,000	\$ 40,000	\$ 40,000
1996 airport loan	16,771	-	-	8,516	8,255	8,255
1999 airport loan	55,384	-	-	10,196	45,188	10,597
2000 water revenue bonds	3,805,000	-	-	185,000	3,620,000	190,000
2002 airport loan	69,551	-	-	7,806	61,745	8,071
2003 airport loan	88,513	-	-	8,956	79,557	9,260
2004 capital improvement bonds	1,870,000	(895,000)	-	41,000	934,000	41,000
2005 sewer revenue bonds	-	-	2,405,000	-	2,405,000	60,000
2005 water revenue bonds	-	-	2,485,000	-	2,485,000	90,000
Total business-type activities	\$ 6,550,219	\$ (895,000)	\$ 4,890,000	\$ 866,474	\$ 9,678,745	\$ 457,183

The reallocation relates to the reclassification of prior year bond proceeds from the business-type activities to the governmental activities.

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS (Continued):

At December 31, 2005, debt service requirements, excluding compensated absences, were as follows:

<i>Year ended</i> <i>December 31,</i>	<i>Governmental activities</i>		<i>Business-type activities</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2006	\$ 463,426	\$ 104,946	\$ 457,183	\$ 336,940
2007	336,920	88,090	484,992	337,184
2008	319,235	75,163	511,099	322,910
2009	286,334	63,736	534,149	307,522
2010	264,758	52,516	544,904	290,843
2011 - 2015	412,058	182,062	2,826,618	1,158,808
2016 - 2020	404,150	107,067	2,555,850	693,718
2021 - 2025	296,050	31,407	1,763,950	247,126
Totals	<u>\$ 2,782,931</u>	<u>\$ 704,987</u>	<u>\$ 9,678,745</u>	<u>\$ 3,695,051</u>

All debt is secured by the full faith and credit of the Village.

NOTE 9 - ADVANCE BOND REFUNDING AND DEFEASANCE:

On November 22, 2005, the Village issued sewer revenue and revenue refunding bonds, in the amount of \$2,405,000 with an average interest rate of 4.90%, to make improvements to the Village's sewer system and refund two prior bond issues. The bonds will refund \$565,000 of outstanding sewer revenue bonds, Series 1994, and \$480,000 of outstanding 1994 general obligation limited tax bonds. The net proceeds, associated with the refundings, of \$1,066,744 (including an issuance premium of \$39,062, and after payment of \$29,278 in underwriting fees and other issuance costs) were used to purchase government securities, which were deposited in an irrevocable trust with an escrow agent. These funds will be used to call the outstanding 1994 bonds, maturing in the years 2007 through 2014, on May 1, 2006.

The Village completed the advance refunding to reduce its total debt service payments over the next nine years by \$52,118 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$60,633. The premium and issuance costs are being amortized over the life of the new bonds.

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN:

The Village provides pension benefits for its manager through a defined contribution plan. This employee is eligible to participate from the date of employment. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The Village contributes 10% of compensation for the manager, which amounted to \$3,280 in 2005. The Village made its required contributions for 2005.

The Village's contributions are fully vested immediately. The Village is not a trustee of the plan, nor is the Village responsible for investment management of plan assets.

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLAN:

Plan description:

The Village's defined benefit pension plan provides retirement benefits to qualified employees and their beneficiaries. The Village's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Village. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding policy:

Contribution rates for each participating employer and its covered employees are established, and may be amended, by each participating unit. The contribution rates are determined based on the benefit structure established by each employer. Covered employees are required to contribute five percent to the plan. The Village is required to contribute at an actuarially determined rate necessary to finance the coverage of its employees. Administrative costs of the plan are financed through investment earnings.

Annual pension cost:

For the year ended December 31, 2005, the Village's annual pension cost of \$115,828 for its defined benefit pension plan was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a) 8 percent investment rate of return, net of administrative expenses, b) projected salary increases of 4.5 percent per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan has an unfunded actuarial accrued benefit, which is being amortized over 30 years as a level percentage of payroll.

Three-year trend information:

<u>Fiscal year ending</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
12/31/03	\$112,938	100%	\$ -
12/31/04	92,832	100%	-
12/31/05	115,828	100%	-

Village of Sparta
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - JOINT VENTURE:

Sparta Fire Department:

The Village is a participant in the Sparta Fire Department (the Department) along with the Township of Sparta. The administrative board of the Department consists of members appointed by each participating unit. The Department was formed for the purpose of providing fire protection to the Sparta area. The Village has no equity interest in the Department; therefore, financial information of the Department has not been included in the Village's financial statements.

Costs of operations and capital asset acquisitions of the Department are supported by contributions from the Village, which contributes one-third, and the Township of Sparta, which contributes two-thirds, of the Fire Department's proposed budget. During the year ended December 31, 2005, the Village paid the Department \$89,738.

Complete financial statements for the Department can be obtained from the Sparta Township Clerk's office at 106 East Division Street, Sparta, Michigan 49345.

NOTE 13 - CLAIMS ARISING FROM RISKS OF LOSS:

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee health and medical claims; injuries to employees; and natural disasters. The risks of loss arising from general liability up to \$5,000,000, building contents, employees' health insurance, workers' compensation, and casualty are managed through purchased commercial insurance.

NOTE 14 - CONSTRUCTION COMMITMENT:

At December 31, 2005, the Village had authorized a contract totaling \$653,400 for the installation of an elevated water storage tank. The improvements are being funded by water revenue bonds issued in 2005 in the amount of \$2,485,000. Costs incurred through December 31, 2005, were \$20,000, leaving a commitment of \$633,400.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Sparta
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended December 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 1,031,875	\$ 1,031,875	\$ 1,037,444	\$ 5,569
Licenses and permits	33,000	33,000	34,496	1,496
State grants	351,200	351,200	441,982	90,782
Charges for services	8,000	8,000	8,999	999
Fines and forfeitures	3,500	3,500	7,199	3,699
Interest and rentals	15,000	15,000	75,231	60,231
Other	36,000	36,000	93,994	57,994
Total revenues	<u>1,478,575</u>	<u>1,478,575</u>	<u>1,699,345</u>	<u>220,770</u>
EXPENDITURES				
Legislative	17,540	16,085	13,310	2,775
General government	406,670	464,004	342,283	121,721
Public safety	768,255	791,132	826,443	(35,311)
Culture and recreation	58,139	58,139	58,724	(585)
Community and economic development	48,860	48,860	20,726	28,134
Capital outlay	200,000	314,519	369,292	(54,773)
Debt service:				
Principal	-	23,055	23,071	(16)
Interest	-	4,745	4,655	90
Total expenditures	<u>1,499,464</u>	<u>1,720,539</u>	<u>1,658,504</u>	<u>62,035</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(20,889)</u>	<u>(241,964)</u>	<u>40,841</u>	<u>282,805</u>
OTHER FINANCING SOURCES (USES)				
Transfer from component unit	-	-	45,000	45,000
Transfer to Equipment Fund	-	(62,309)	(62,309)	-
Transfer to Major Street Fund	(32,300)	(502,300)	(502,300)	-
Total other financing sources (uses)	<u>(32,300)</u>	<u>(564,609)</u>	<u>(519,609)</u>	<u>45,000</u>
NET CHANGE IN FUND BALANCES	<u>(53,189)</u>	<u>(806,573)</u>	<u>(478,768)</u>	<u>327,805</u>
FUND BALANCES - BEGINNING	<u>3,227,008</u>	<u>3,227,008</u>	<u>3,227,008</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 3,173,819</u>	<u>\$ 2,420,435</u>	<u>\$ 2,748,240</u>	<u>\$ 327,805</u>

Village of Sparta
BUDGETARY COMPARISON SCHEDULE - Major Street Fund
Year ended December 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 164,000	\$ 164,000	\$ 167,682	\$ 3,682
Contributions from local units	670,000	735,000	660,590	(74,410)
Interest	5,000	13,000	12,439	(561)
Other	-	-	5,937	5,937
Total revenues	<u>839,000</u>	<u>912,000</u>	<u>846,648</u>	<u>(65,352)</u>
EXPENDITURES				
Public works	2,215,738	2,917,318	2,187,267	730,051
Debt service:				
Principal	80,000	80,000	59,000	21,000
Interest	<u>97,500</u>	<u>97,500</u>	<u>47,307</u>	<u>50,193</u>
Total expenditures	<u>2,393,238</u>	<u>3,094,818</u>	<u>2,293,574</u>	<u>801,244</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(1,554,238)</u>	<u>(2,182,818)</u>	<u>(1,446,926)</u>	<u>735,892</u>
OTHER FINANCING SOURCES (USES)				
Reallocation of prior year bond proceeds	-	-	895,000	895,000
Transfers from other funds	198,172	729,172	593,300	(135,872)
Transfer from component unit	-	-	70,000	70,000
Transfer to Local Street Fund	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Total other financing sources	<u>158,172</u>	<u>689,172</u>	<u>1,518,300</u>	<u>829,128</u>
NET CHANGE IN FUND BALANCES	<u>(1,396,066)</u>	<u>(1,493,646)</u>	<u>71,374</u>	<u>1,565,020</u>
FUND BALANCES - BEGINNING	<u>175,236</u>	<u>175,236</u>	<u>175,236</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ (1,220,830)</u>	<u>\$ (1,318,410)</u>	<u>\$ 246,610</u>	<u>\$ 1,565,020</u>

Village of Sparta**ANALYSIS OF FUNDING PROGRESS - Employee Retirement System****(Municipal Employees' Retirement System of Michigan)**

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated.

Actuarial valuation date <u>December 31,</u>	Actuarial value of assets <u>(a)</u>	Actuarial accrued liability (AAL) entry age <u>(b)</u>	Funded ratio <u>(a)/(b)</u>	(Over- funded) AAL <u>(b-a)</u>	Covered payroll <u>(c)</u>	(Over- funded) AAL as a percentage of covered payroll <u>((b-a)/c)</u>
1997	\$ 328,675	\$ 1,540,661	21%	\$ 1,211,986	\$ 561,844	216%
1998	479,804	1,636,046	29%	1,156,242	572,059	202%
1999	607,342	1,648,845	37%	1,041,503	637,804	163%
2000	740,815	1,834,865	40%	1,094,050	679,795	161%
2001	879,543	1,974,771	45%	1,095,228	695,243	158%
2002	1,046,036	2,031,970	51%	985,934	692,359	142%
2003	1,206,736	2,447,331	49%	1,240,595	820,511	151%
2004	1,348,821	2,749,578	49%	1,400,757	861,030	163%
2005	1,505,897	2,988,128	50%	1,482,231	865,319	171%

SUPPLEMENTARY INFORMATION

Village of Sparta

COMBINING BALANCE SHEET - nonmajor governmental funds

December 31, 2005

Special revenue funds			
	<u>Local Street</u>	<u>Sidewalk</u>	<u>Totals</u>
ASSETS			
Cash	\$ 262,061	\$ 21,111	\$ 283,172
Receivables	<u>10,399</u>	<u>-</u>	<u>10,399</u>
Total assets	<u>\$ 272,460</u>	<u>\$ 21,111</u>	<u>\$ 293,571</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 6,757	\$ -	\$ 6,757
Fund balances:			
Unreserved, undesignated	<u>265,703</u>	<u>21,111</u>	<u>286,814</u>
Total liabilities and fund balances	<u>\$ 272,460</u>	<u>\$ 21,111</u>	<u>\$ 293,571</u>

<i>Debt service funds</i>			<i>Total other govern- mental funds</i>
<i>1991 Sewer bonds</i>	<i>2001 Sewer/water refunding bonds</i>	<i>Totals</i>	
\$ -	\$ 140,976	\$ 140,976	\$ 424,148
-	-	-	10,399
<u>\$ -</u>	<u>\$ 140,976</u>	<u>\$ 140,976</u>	<u>\$ 434,547</u>
\$ -	\$ -	\$ -	\$ 6,757
-	140,976	140,976	427,790
<u>\$ -</u>	<u>\$ 140,976</u>	<u>\$ 140,976</u>	<u>\$ 434,547</u>

Village of Sparta**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended December 31, 2005

Special revenue funds			
	Local Street	Sidewalk	Totals
REVENUES			
Property taxes	\$ 152,665	\$ -	\$ 152,665
State grants	67,552	-	67,552
Interest	5,911	1,679	7,590
Other	444	18,803	19,247
Total revenues	226,572	20,482	247,054
EXPENDITURES			
Public works	211,370	42,761	254,131
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and fees	-	-	-
Total expenditures	211,370	42,761	254,131
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	15,202	(22,279)	(7,077)
OTHER FINANCING SOURCES (USES)			
Transfers in	40,000	-	40,000
Transfers out	(50,000)	(41,000)	(91,000)
Total other financing uses	(10,000)	(41,000)	(51,000)
NET CHANGE IN FUND BALANCES	5,202	(63,279)	(58,077)
FUND BALANCES - BEGINNING	260,501	84,390	344,891
FUND BALANCES - ENDING	\$ 265,703	\$ 21,111	\$ 286,814

<i>Debt service funds</i>			<i>Total other govern- mental funds</i>
<i>1991 Sewer bonds</i>	<i>2001 Sewer/water refunding bonds</i>	<i>Totals</i>	
\$ -	\$ 250,167	\$ 250,167	\$ 402,832
-	-	-	67,552
155	6,894	7,049	14,639
<u>2,099</u>	<u>2,267</u>	<u>4,366</u>	<u>23,613</u>
 2,254	 259,328	 261,582	 508,636
-	-	-	254,131
-	-	-	-
6,800	325,000	331,800	331,800
<u>490</u>	<u>60,678</u>	<u>61,168</u>	<u>61,168</u>
 7,290	 385,678	 392,968	 647,099
 (5,036)	 (126,350)	 (131,386)	 (138,463)
-	-	-	40,000
<u>(2,342)</u>	<u>-</u>	<u>(2,342)</u>	<u>(93,342)</u>
 (2,342)	 -	 (2,342)	 (53,342)
(7,378)	(126,350)	(133,728)	(191,805)
<u>7,378</u>	<u>267,326</u>	<u>274,704</u>	<u>619,595</u>
 \$ -	 \$ 140,976	 \$ 140,976	 \$ 427,790

**SECURITIES AND EXCHANGE COMMISSION RULE 15C2-12 CONTINUING DISCLOSURE
(UNAUDITED)**

**Village of Sparta
Taxable Value
Fiscal Years Ended December 31, 2001 Through 2005**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	Village's Fiscal Years Ended December 31	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)	Total Taxable Value	Percent Increase Over Prior Year
2000	2001	2001	\$ 89,091,415	\$ 3,993,050	\$ 93,084,465	3.98%
2001	2002	2002	94,366,904	3,113,850	97,480,754	4.72%
2002	2003	2003	97,449,805	2,723,100	100,172,905	2.76%
2003	2004	2004	109,509,467	4,369,963	113,879,430	13.68%
2004	2005	2005	114,736,021	3,643,099	118,379,120	3.95%

Per Capita Total Taxable Value for the fiscal year ended December 31, 2005 = \$28,463

(1) At the full tax rate. See "Tax Abatement" herein.

(2) Based on the Village's 2000 census population of 4,159.

Source: Village of Sparta

**Village of Sparta
Taxable Value by Use and Class
Fiscal Years Ended December 31, 2001 Through 2005**

Use	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Agricultural	\$ 2,543	\$ 2,624	\$ 2,663	\$ 2,724	\$ 2,789
Commercial	23,141,367	24,253,643	24,999,292	27,499,067	29,468,904
Industrial	22,354,105	23,174,626	23,113,886	30,727,826	31,141,347
Residential	45,915,771	48,423,917	50,889,832	53,942,313	56,068,983
Development	83,280	85,944	87,232	490,000	490,100
Utility	1,587,400	1,540,000	1,080,000	1,217,500	1,207,000
	<u>\$ 93,084,466</u>	<u>\$ 97,480,754</u>	<u>\$ 100,172,905</u>	<u>\$ 113,879,430</u>	<u>\$ 118,379,123</u>
Class	2001	2002	2003	2004	2005
Real Property	\$ 75,525,916	\$ 79,016,004	\$ 82,783,055	\$ 91,290,730	\$ 95,922,673
Personal Property	17,558,550	18,464,750	17,389,850	22,588,700	22,456,450
	<u>\$ 93,084,466</u>	<u>\$ 97,480,754</u>	<u>\$ 100,172,905</u>	<u>\$ 113,879,430</u>	<u>\$ 118,379,123</u>

Source: Village of Sparta

(UNAUDITED)

**Village of Sparta
State Equalized Valuation
Fiscal Years Ended December 31, 2001 through 2005**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	Village's Fiscal Years Ended December 31	Ad Valorem SEV	SEV of Property Granted Tax Abatement Under Act 198 (1)	Total SEV	Percent Increase Over Prior Year
2000	2001	2001	\$ 101,583,000	\$ 8,055,500	\$ 109,638,500	5.49%
2001	2002	2002	108,188,900	6,421,400	114,610,300	4.53%
2002	2003	2003	110,420,300	5,575,300	115,995,600	1.21%
2003	2004	2004	122,564,900	8,538,500	131,103,400	13.02%
2004	2005	2005	128,723,500	7,374,800	136,098,300	3.81%

Per Capita Total SEV for the fiscal year ended December 31, 2005 = \$32,724

(1) At the full tax rate. See "Tax Abatement" herein.

(2) Based on the Village's 2000 census population of 4,159.

Source: Village of Sparta

**Village of Sparta
SEV by Use and Class
Fiscal Years Ended December 31, 2001 through 2005**

Use	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Agricultural	\$ 3,000	\$ 4,200	\$ 5,100	\$ 5,400	\$ 5,900
Commercial	24,992,400	26,193,500	26,779,700	29,971,500	32,616,900
Industrial	27,322,100	27,266,100	26,741,300	35,681,700	36,428,200
Residential	55,237,000	59,052,400	60,818,200	63,737,300	65,350,200
Development	496,600	554,100	567,300	490,000	490,100
Utility	1,587,400	1,540,000	1,084,000	1,217,500	1,207,000
	<u>\$ 109,638,500</u>	<u>\$ 114,610,300</u>	<u>\$ 115,995,600</u>	<u>\$ 131,103,400</u>	<u>\$ 136,098,300</u>
Class	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Real Property	\$ 89,509,500	\$ 94,390,600	\$ 96,881,200	\$ 106,333,600	\$ 111,825,600
Personal Property	20,129,000	20,219,700	19,114,400	24,769,800	24,272,700
	<u>\$ 109,638,500</u>	<u>\$ 114,610,300</u>	<u>\$ 115,995,600</u>	<u>\$ 131,103,400</u>	<u>\$ 136,098,300</u>

Source: Village of Sparta

Tax Abatement

The Village's Taxable Value does not include the value of certain facilities, which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198. The Act was designed to provide a stimulus in the form of significant tax incentives to industrial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Act, a local governmental unit (i.e., a city, village or township) may establish plant rehabilitation districts and industrial development districts and offer industrial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

(UNAUDITED)

Tax Abatement (Continued)

An industrial facilities exemption certificate granted under Act 198 entitles an eligible facility to exemption from Ad Valorem taxes for a period of up to 12 years. In lieu of Ad Valorem taxes, the eligible facility will pay an industrial facilities (the "IFT Tax"). For properties granted tax abatement under Act 198, there exists a separate tax roll referred to as the industrial facilities tax roll (the "IFT Tax Roll"). The IFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the Taxable Value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility, the IFT Tax is also determined the same as the Ad Valorem Tax, but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals 1/2 of all tax rates levied by other than the state and local school district for operating purposes plus 1/2 of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals 1/2 of all tax rates levied by other than the state and local school district plus none, 1/2, or the entire state tax rate (as determined by the State Treasurer).

The Village has established goals, objectives, and procedures to provide the opportunity for industrial development and expansion. Since 1974, the Village has approved a number of applications for local property tax relief for industrial and commercial firms. The SEV of properties that have been granted tax abatement under the Act, removed from the Ad Valorem Tax Roll, and placed on the IFT Tax Roll totaled \$7,374,800 for the fiscal year ended December 31, 2005. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$3,643,099 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates, the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

Village of Sparta Maximum Property Tax Rates Fiscal Year Ended December 31, 2005

Millage Classification	Millage Authorized	Millage Rate As Permanently Reduced By Headlee	Current Year Reduction Fraction	Maximum Allowable Millage
Operating	17.5000	15.9185	1.0000	15.9185
Streets and Highways	5.0000	4.5725	1.0000	4.5725
Refuse Collection and Disposal	3.0000	2.7435	1.0000	2.7435

Source: Village of Sparta

Village of Sparta Property Tax Rates Fiscal Years Ended December 31, 2001 Through 2005

Levy July 1	Fiscal Year Ended December 31	General Operating	Streets and Highways	Debt Service (1)	Total
2001	2001	11.75	1.5	4.25	17.5
2002	2002	11.75	1.5	3.75	17
2003	2003	11.75	1.5	3.25	16.5
2004	2004	11.75	1.5	3.25	16.5
2005	2005	10.75	1.5	2.25	14.5

(1) Voter approved.

Source: Village of Sparta

(UNAUDITED)

Village of Sparta
Homestead Property Tax Rates by Governmental Unit
Fiscal Years Ended December 31, 2001 Through 2005

Governmental Unit	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Village of Sparta	17.5000	17.0000	16.5000	16.5000	14.5000
Kent Intermediate Schools	3.8299	3.8192	3.7903	4.5333	4.6453
Grand Rapids Community College	1.8049	1.8000	1.7865	1.7865	1.7865
State Education	6.0000	6.0000	5.0000	6.0000	6.0000
Sparta Schools	4.9326	4.6256	4.6152	7.2252	7.1352
Kent County	5.3230	5.3140	5.3140	5.3140	5.3140
Sparta Township	1.2477	1.2426	1.2295	1.2270	1.2270
	40.6381	39.8014	38.2355	42.5860	40.6080

Village of Sparta
Non-Homestead Property Tax Rates by Governmental Unit
Fiscal Years Ended December 31, 2001 Through 2005

Governmental Unit	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Village of Sparta	17.5000	17.0000	16.5000	16.5000	14.5000
Kent Intermediate Schools	3.8299	3.8192	3.7903	4.5333	4.6453
Grand Rapids Community College	1.8049	1.8000	1.7865	1.7865	1.7865
State Education	6.0000	6.0000	5.0000	6.0000	6.0000
Sparta Schools	22.6410	22.3390	22.3236	24.9336	25.1352
Kent County	5.3230	5.3140	5.3140	5.3140	5.3140
Sparta Township	1.2477	1.2426	1.2295	1.2270	1.2270
	58.3465	57.5148	55.9439	60.2944	58.6080

Village of Sparta
Property Tax Collections
Fiscal Years Ended December 31, 2001 Through 2005

July 1 Levy	Fiscal Year Ended December 31	Tax Levy (1)	Collections to December 31 Following Levy	Percent Collected
2001	2001	\$ 1,617,596	\$ 1,489,217	92.06%
2002	2002	1,660,992	1,531,359	92.20%
2003	2003	1,653,755	1,548,100	93.61%
2004	2004	1,799,066	1,688,396	93.85%
2005	2005	1,560,238	1,358,862	87.09%

(1) Village taxes only. Excludes special assessments. Includes property tax collections of property granted tax abatement under Act 198.

Source: Village of Sparta

(UNAUDITED)

**Village of Sparta
Ten Largest Taxpayers
Fiscal Year Ended December 31, 2005**

Taxpayer	Principal Product or Service	Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)	Total Taxable Value	Percent of Total (2)
Federal Mogul Piston Ring	Piston Ring Manufacturer	\$ 5,263,564	\$ 1,402,000	\$ 6,665,564	5.63%
Apple Valley/Old Orchard	Fruit Juice Manufacturer	4,910,087	2,025,267	6,935,354	5.86%
Spartan Graphic, Inc.	General Commercial Advertising	3,384,156	1,753,300	5,137,456	4.34%
Tesa Tape, Inc.	Adhesive Tape Manufacturer	2,906,399	-	2,906,399	2.46%
Appletree Group LLC	Apartments	2,041,000	-	2,041,000	1.72%
Cascade Die Casting	Aluminum Injector Molder	1,925,684	-	1,925,684	1.63%
Emmons Development Co.	Retail Grocery Store	1,919,807	-	1,919,807	1.62%
General Formulation	Coating and Laminating of Films	1,879,284	326,400	2,205,684	1.86%
Choiceone Bank	Financial Institution	1,477,296	-	1,477,296	1.25%
Continental Identification	Commercial Screen Printer	1,401,975	187,200	1,589,175	1.34%
		<u>\$ 27,109,252</u>	<u>\$ 5,694,167</u>	<u>\$ 32,803,419</u>	<u>27.71%</u>

(1) Based on \$118,379,120, which is the Village's Total Taxable Value for its fiscal year ended December 31, 2005. Includes the Equivalent Taxable Value of Property granted under Act 198.

Source: Village of Sparta

**Village of Sparta
Revenues from the State of Michigan
Fiscal Years Ended or Ending December 31, 2001 Through 2005**

	Fiscal Years Ended or Ending December 31,				
	2001	2002	2003	2004	2005
Liquor license fees	\$ 3,367	\$ 2,857	\$ 3,004	\$ 4,055	\$ 3,672
State Shared Revenue	<u>551,578</u>	<u>503,716</u>	<u>469,131</u>	<u>434,870</u>	<u>430,357</u>
	<u>\$ 554,945</u>	<u>\$ 506,573</u>	<u>\$ 472,135</u>	<u>\$ 438,925</u>	<u>\$ 434,029</u>

Source: Village of Sparta

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the Village may legally incur as of December 31, 2005.

Debt Limit (1)	\$ 13,609,830
Debt Outstanding	\$ 12,461,676
Less: Exempt Debt	<u>8,550,000</u>
	<u>3,911,676</u>
Legal Debt Margin	<u>\$ 9,698,154</u>

(1) 10% of \$136,098,300 Village's Total SEV for the fiscal year ended December 31, 2005.

Source: Municipal Advisory Council of Michigan and the Village of Sparta.

(UNAUDITED)

**Village of Sparta
Debt Statement
December 31, 2005**

The following table reflects a breakdown of the Village's direct and overlapping debt as of December 31, 2005. To the extent necessary, the Village may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of, and interest due on, the bonds in the following table, which are designated as "UT." However, the Village's ability to levy tax to pay the debt service on the bonds, which are designated as "LT," is subject to applicable charter, statutory, and constitutional limitations.

<u>Village Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
General Obligation Bonds:			
Dated November 4, 2004 (Limited Tax)	\$ 2,295,000	\$ -	\$ 2,295,000
Dated March 29, 2001 (Unlimited Tax)	1,160,000	-	1,160,000
Dated July 1, 1994 (Limited Tax)	40,000	-	40,000
Subtotal	<u>3,495,000</u>	<u>-</u>	<u>3,495,000</u>
Sewer Revenue Bonds:			
Dated November 22, 2005	2,405,000	2,405,000	-
Dated July 1, 1994	40,000	40,000	-
Subtotal	<u>2,445,000</u>	<u>2,445,000</u>	<u>-</u>
Water Revenue Bonds:			
Dated November 22, 2005	2,485,000	2,485,000	-
Dated September 28, 2000	3,620,000	3,620,000	-
Subtotal	<u>6,105,000</u>	<u>6,105,000</u>	<u>-</u>
Installment Purchase Obligations:			
Dated November 18, 2005	99,880	-	99,880
Dated May 11, 2004	54,133	-	54,133
Dated August 23, 2003	79,557	-	79,557
Dated November 25, 2002	61,745	-	61,745
Dated October 21, 1999	45,188	-	45,188
Dated October 15, 1998	60,612	-	60,612
Dated May 2, 1997	7,306	-	7,306
Dated November 8, 1996	8,255	-	8,255
Subtotal	<u>416,676</u>	<u>-</u>	<u>416,676</u>
Totals	\$ 12,461,676	\$ 8,550,000	\$ 3,911,676

Per Capita Net Village Direct Debt (1) \$ 941
Percent of Net Direct Debt to SEV (2) 2.87%

<u>Overlapping Debt (3)</u>	<u>Gross</u>	<u>Village Share As Percent of Gross</u>	<u>Net</u>
Kent County	\$ 84,960,000	0.58%	\$ 492,768
Sparta School District	38,615,000	27.93%	10,785,170
Grand Rapids Community College	57,460,000	0.57%	327,522
Totals	\$ 181,035,000		\$ 11,605,460

Per Capita Net Overlapping Debt (1) \$2,790
Percent of Net Overlapping Debt to SEV (2) 8.53%

Per Capita Net Direct and Overlapping Debt (1) \$3,731
Percent of Net Direct and Overlapping Debt to SEV (2) 11.40%

(UNAUDITED)

**Village of Sparta
Debt Statement
December 31, 2005**

- (1) Based on the Village's 2000 census population of 4,159.
- (2) Based on \$136,098,300, which is the Village's SEV for the fiscal year ended December 31, 2005. Includes the value of property granted tax abatement under Act 198.
- (3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the Village are liable in addition to debt issued by the Village.

Source: Municipal Advisory Council of Michigan and the Village of Sparta

(UNAUDITED)